

SALINA CITY
FINANCIAL STATEMENTS
JUNE 30, 2006

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Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Salina City
Salina, Utah 84654

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salina City as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Salina City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salina City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2006, on our consideration of Salina City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 16 and 51 through 53 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and City Council
Salina City

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salina City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of Salina City. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

October 18, 2006
Richfield, Utah

SALINA CITY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

This discussion of Salina City's financial performance provides an overview of the City's financial activities for the year ending June 30, 2006. This report is in conjunction with the City's financial statements.

The City's purpose is to provide general services to its residents which includes general government, public safety, highways and public improvements, economic development and parks and recreation.

Financial Highlights

- * The assets of the City exceeded liabilities as of the close of the most recent year by \$8,993,811 (net assets). Of this amount, \$630,039 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- * The government's total net assets increased by \$32,572. The revenues were less than the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts.
- * At the close of the current year, the City's governmental funds reported ending fund balances of \$476,635, a decrease of \$216,675 in comparison with the prior year. Approximately 71 percent of this total amount, \$338,791, is available for spending at the government's discretion (unreserved fund balance).
- * At the end of the current year, unreserved fund balance for the general fund was \$439,811, or 27 percent of total general fund expenditures.
- * The City's total debt decreased by \$485,741 during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Salina City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

SALINA CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued.
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include general government, public health, highways and public improvements and parks and recreation. The business-type activities of the City are the enterprise funds; containing water, sewer, sanitation and pressurized irrigation services.

Refer to the table of contents for the location of the government-wide financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Salina City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and enterprise funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Salina City maintains four governmental funds, the general fund, capital projects fund, building authority and a redevelopment agency fund.

The City adopts an annual appropriated budget for all of its governmental funds. A budgetary comparison statement has been provided to demonstrate legal compliance with the adopted budget for the general fund.

Refer to the table of contents for the location of the basic governmental fund financial statements.

**SALINA CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued.
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Proprietary Funds

Salina City maintains four types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer, sanitation and pressurized irrigation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water and sewer enterprise funds are considered major funds of the City.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Salina City, assets exceeded liabilities by \$8,993,811 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (91 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**SALINA CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued.
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Salina City's Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets:						
Current and Other Assets	549,154	806,152	520,613	416,575	1,069,767	1,222,727
Capital Assets	<u>4,632,673</u>	<u>4,602,274</u>	<u>8,940,139</u>	<u>9,227,900</u>	<u>13,572,812</u>	<u>13,830,174</u>
Total Assets	<u>5,181,827</u>	<u>5,408,426</u>	<u>9,460,752</u>	<u>9,644,475</u>	<u>14,642,579</u>	<u>15,052,901</u>
Liabilities:						
Long-Term Liabilities	1,494,460	1,481,956	3,998,375	4,000,271	5,492,835	5,482,227
Other Liabilities	<u>93,319</u>	<u>304,707</u>	<u>62,614</u>	<u>304,729</u>	<u>155,933</u>	<u>609,436</u>
Total Liabilities	<u>1,587,779</u>	<u>1,786,663</u>	<u>4,060,989</u>	<u>4,305,000</u>	<u>5,648,768</u>	<u>6,091,663</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	3,164,239	2,946,994	4,941,764	4,994,030	8,106,003	7,941,024
Restricted	137,844	254,444	119,925	113,150	257,769	367,594
Unrestricted	<u>291,965</u>	<u>420,325</u>	<u>338,074</u>	<u>232,295</u>	<u>630,039</u>	<u>652,620</u>
Total Net Assets	<u>3,594,048</u>	<u>3,621,763</u>	<u>5,399,763</u>	<u>5,339,475</u>	<u>8,993,811</u>	<u>8,961,238</u>

A portion of the City's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$630,039, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities decreased the City's net assets by \$27,715. Key elements of the changes are shown below:

**SALINA CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued.
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Salina City's Changes in Net Assets-Continued.

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	233,304	201,529	826,524	796,510	1,059,828	998,039
Operating Grants	182,149	166,827			182,149	166,827
Capital Grants	463,434	164,991	-	-	463,434	164,991
General Revenues:						
Property Taxes	172,344	334,506	-	-	172,344	334,506
Other Taxes	549,848	372,366	-	-	549,848	372,366
Impact Fees	-	-	18,100	12,900	18,100	12,900
Sale of Fixed Assets	12,670	17,300	-	-	12,670	17,300
Unrestricted Investment Earnings	22,639	35,083	2,305	7,080	24,944	42,163
Total Revenues	<u>1,636,388</u>	<u>1,292,602</u>	<u>846,929</u>	<u>816,490</u>	<u>2,483,317</u>	<u>2,109,092</u>
Expenses:						
General Government	296,947	261,943	-	-	296,947	261,943
Public Safety	564,755	503,302	-	-	564,755	503,302
Highways	453,274	352,715	-	-	453,274	352,715
Parks & Recreation	285,253	281,891	-	-	285,253	281,891
Economic Development	19,129	22,506	-	-	19,129	22,506
Interest on Long-Term Debt	44,745	55,600	71,715	78,639	116,460	134,239
Business Type Activities	-	-	714,927	680,995	714,927	680,995
Total Expenses	<u>1,664,103</u>	<u>1,477,957</u>	<u>786,642</u>	<u>759,634</u>	<u>2,450,745</u>	<u>2,237,591</u>
Decrease in Net Assets Before Transfers	(27,715)	(185,355)	60,287	56,856	32,572	(128,499)
Transfers	-	-	-	-	-	-
Increase in Net Assets	(27,715)	(185,355)	60,287	56,856	32,572	(128,499)
Net Assets - Beginning	<u>3,621,763</u>	<u>3,807,118</u>	<u>5,339,476</u>	<u>5,282,620</u>	<u>8,961,239</u>	<u>9,089,738</u>
Net Assets - Ending	<u>3,594,048</u>	<u>3,621,763</u>	<u>5,399,763</u>	<u>5,339,476</u>	<u>8,993,811</u>	<u>8,961,239</u>

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-Type Activities

Business-type activities increased the City's net assets by \$60,287. Key elements of changes are shown above.

**SALINA CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued.
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, the City's governmental funds reported ending fund balances of \$476,635 a decrease of \$216,675 in comparison with the prior year. Approximately 71 percent of this amount, \$338,791 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to: 1) bond reserves, \$93,800, and 2) perpetual care, \$44,044.

The general fund is the chief operating fund of the City. At the end of the current year, unreserved fund balance of the general fund was \$439,811, while total fund balance reached \$533,611. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 83 percent of total general fund expenditures, while total fund balance represents 33 percent of that same amount.

Proprietary Funds

The City's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the enterprise fund at the end of the year were \$342,799. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of \$295,453 can be briefly summarized as follows:

- * \$30,550 increase in general government.
- * \$5,200 decrease in judicial.
- * \$39,247 decrease in public safety.
- * \$251,600 increase in streets and public improvements.
- * \$13,250 decrease in parks, recreation and public property.
- * \$71,000 increase in debt service.

Of the total general fund expenditures, none was funded out of prior year's unreserved fund balance.

SALINA CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued.
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2006, was \$4,632,673 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment and infrastructure, which includes roads, highways and public improvements.

Salina City's Capital Assets
(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	991,770	641,770	138,200	138,200	1,129,970	779,970
Water Shares	-	-	101,703	101,703	101,703	101,703
Infrastructure	1,736,050	1,970,700	-	-	1,736,050	1,970,700
Buildings	1,494,136	1,545,423	52,159	539,814	1,546,295	2,085,237
Water and Sewer System	-	-	8,608,953	8,871,278	8,608,953	8,871,278
Equipment	410,717	444,381	39,124	63,738	449,841	508,119
Total	4,632,673	4,602,274	8,940,139	9,714,733	13,572,812	14,317,007

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long -Term Debt

At the end of the current year, the City had bonds outstanding of \$5,143,375, notes payable of \$37,876 and capital leases of \$285,558.

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Capital Leases	285,558	335,961	-	-	285,558	335,961
Notes Payable	37,876	49,319	-	-	37,876	49,319
General Obligation Bonds	-	-	1,063,000	1,521,643	1,063,000	1,521,643
Revenue Bonds	1,145,000	1,253,000	2,935,375	2,684,627	4,080,375	3,937,627
Total Long-Term Debt	1,468,434	1,638,280	3,998,375	4,206,270	5,466,809	5,844,550

State statutes limit the amount of general obligation debt a governmental entity may issue to 12 percent of its total fair market value of taxable property in the City. The current debt limitation for the City is approximately \$10,000,000. The total general obligation debt at year end was \$1,063,000.

**SALINA CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued.
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

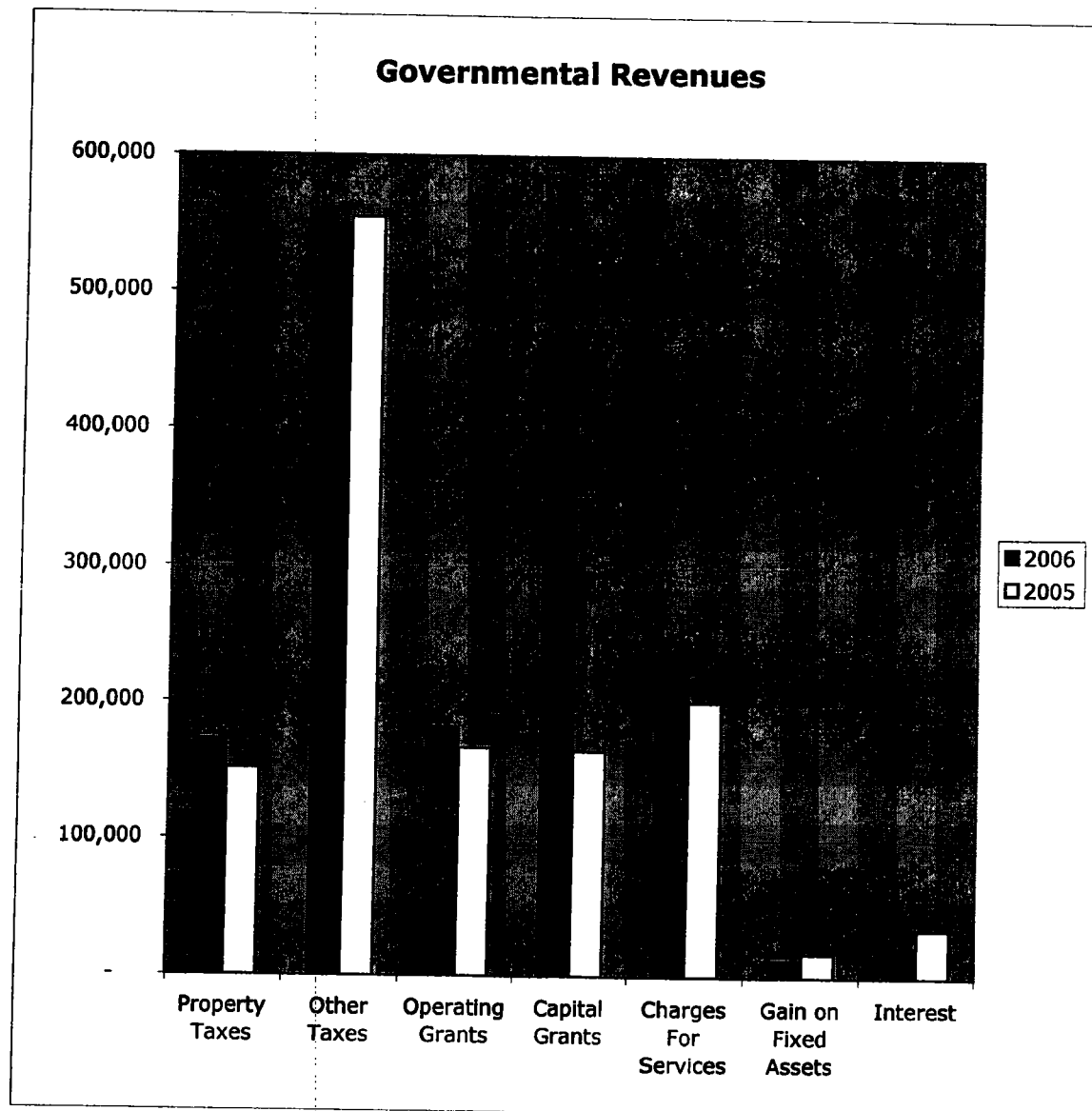
Additional information on the City's long-term debt can be found in the notes of the financial statements.

Request for Information

This financial report is designed to provide a general overview of Salina City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Salina City Recorder, P.O. Box 69, Salina, Utah, 84654.

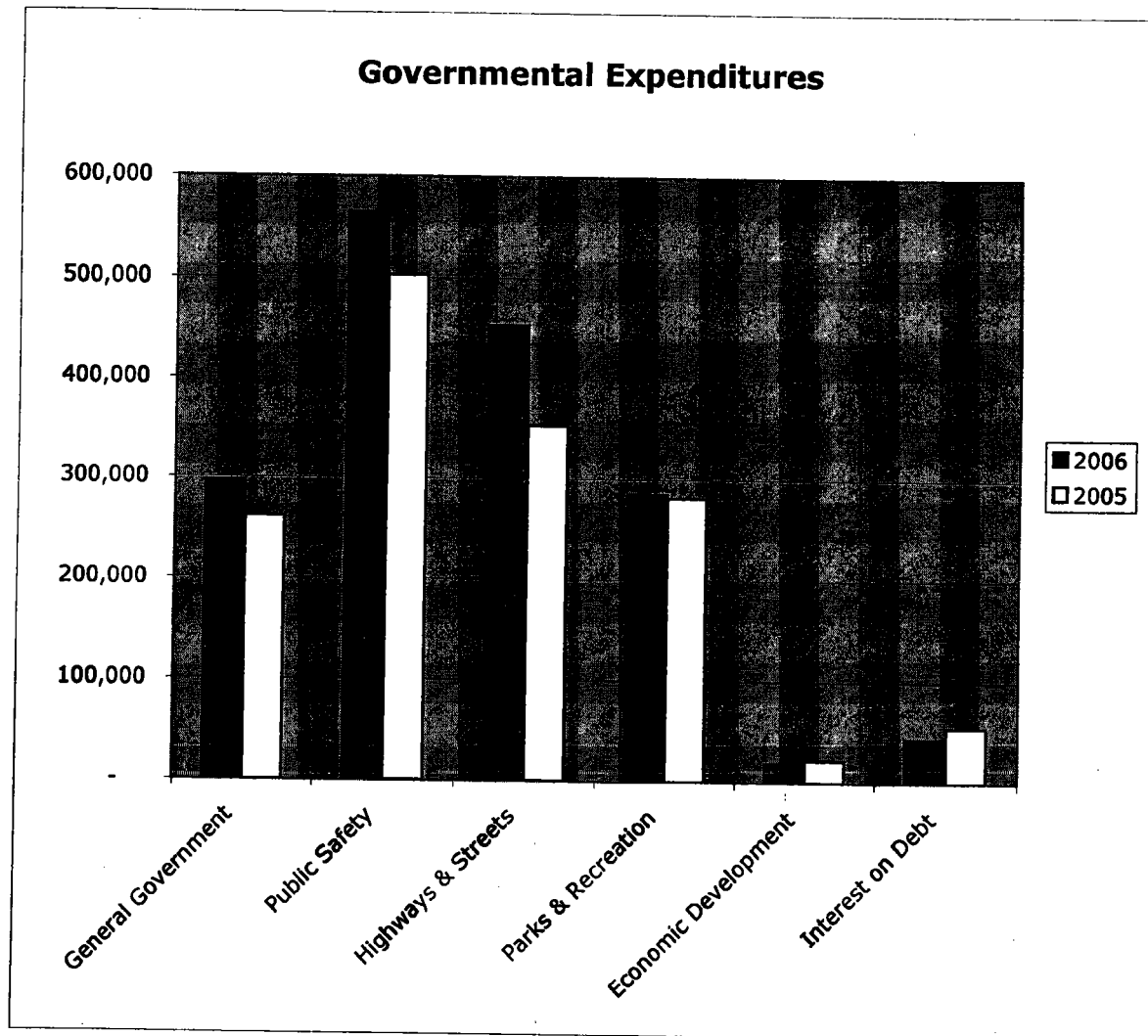
Salina City
Governmental Revenues
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
Property Taxes	172,344	151,683
Other Taxes	549,848	555,189
Operating Grants	182,149	166,827
Capital Grants	463,434	164,991
Charges For Services	233,304	201,529
Gain on Fixed Assets	12,670	17,300
Interest	22,639	35,083
Total Revenues	1,636,388	1,292,602



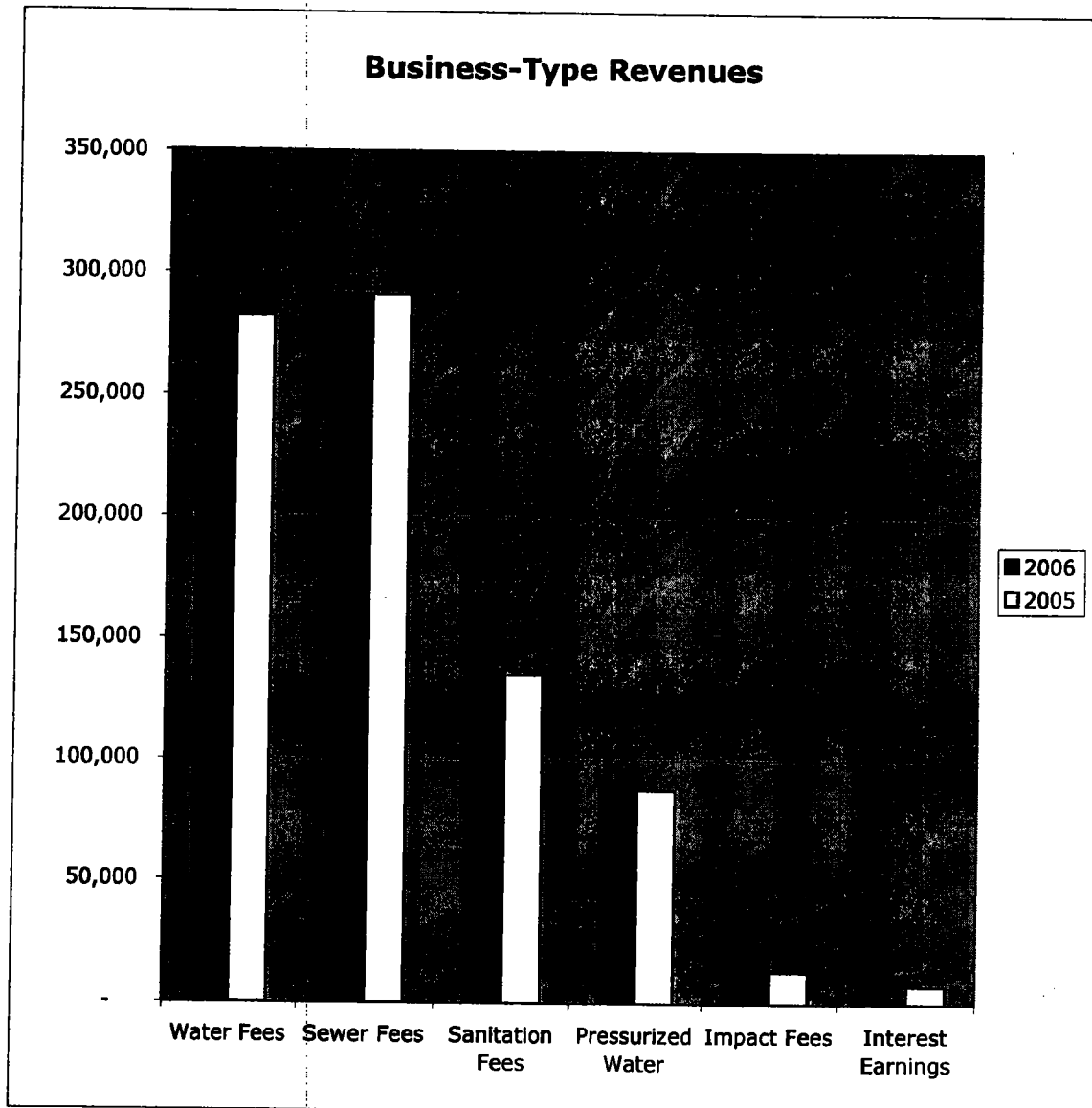
Salina City
Governmental Expenditures
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
General Government	296,947	261,943
Public Safety	564,755	503,302
Highways & Streets	453,274	352,715
Parks & Recreation	285,253	281,891
Economic Development	19,129	22,506
Interest on Debt	44,745	55,600
Total Expenditures	1,664,103	1,477,957



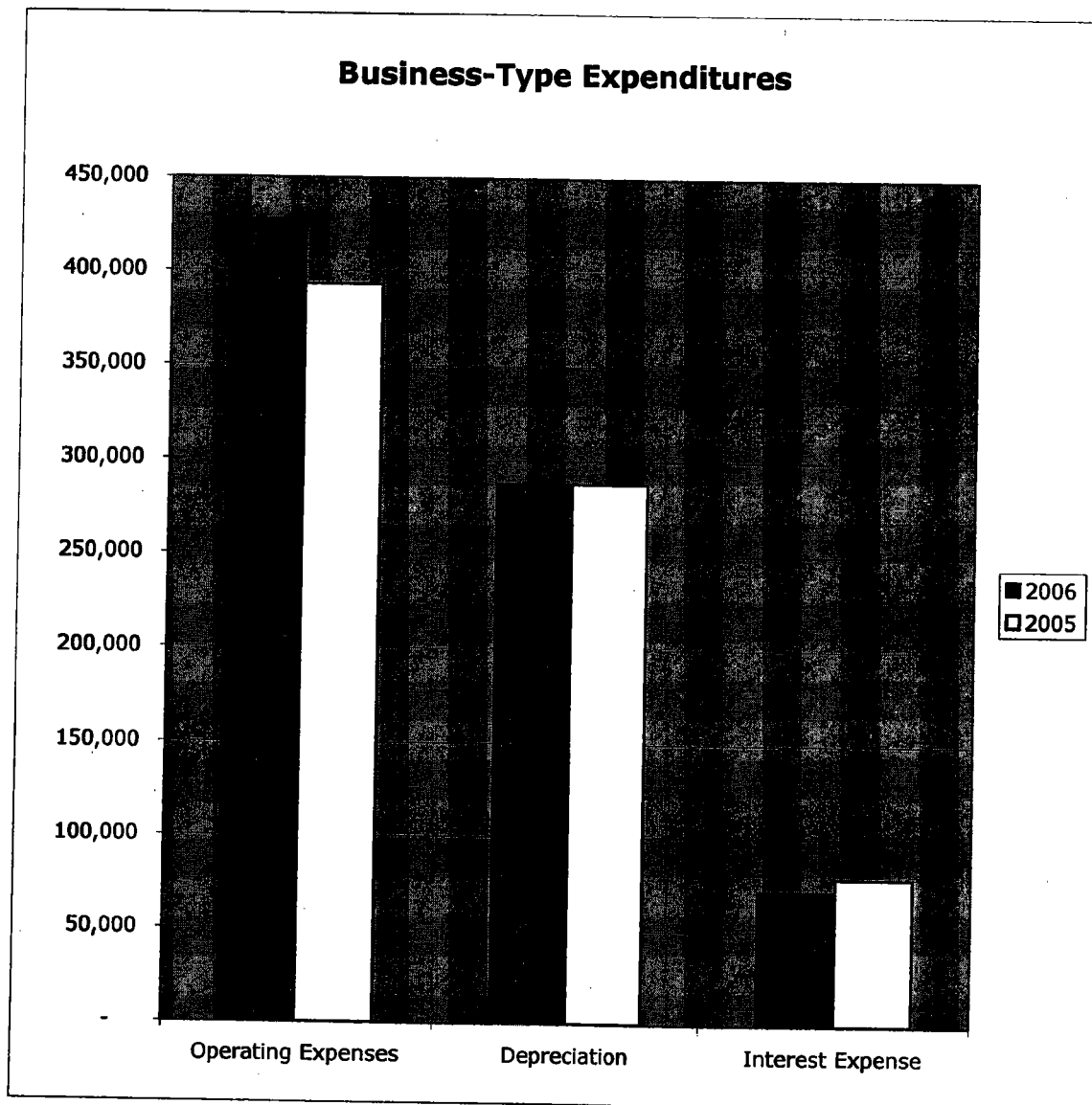
Salina City
Business-Type Revenues
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
Water Fees	308,033	282,519
Sewer Fees	291,517	291,372
Sanitation Fees	137,774	135,191
Pressurized Water	89,200	87,428
Impact Fees	18,100	12,900
Interest Earnings	2,305	7,080
Total Revenues	846,929	816,490



Salina City
Business Type Expenditures
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
Operating Expenses	427,163	393,208
Depreciation	287,764	287,787
Interest Expense	71,715	78,639
Total Expenditures	786,642	759,634



BASIC FINANCIAL STATEMENTS

**SALINA CITY
STATEMENT OF NET ASSETS**

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	402,037	327,715	729,752
Accounts Receivable (Net)	8,666	77,698	86,364
Due From Other Government Units	44,651	-	44,651
Total Current Assets	455,354	405,413	860,767
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	93,800	115,200	209,000
Capital Assets (Net of Accumulated Depreciation):			
Land	991,770	138,200	1,129,970
Water Shares	-	101,703	101,703
Buildings	1,494,136	52,159	1,546,295
Improvements Other Than Buildings	-	8,608,953	8,608,953
Equipment	410,717	39,124	449,841
Infrastructure	1,736,050	-	1,736,050
Total Noncurrent Assets	4,726,473	9,055,339	13,781,812
TOTAL ASSETS	5,181,827	9,460,752	14,642,579
LIABILITIES			
Current Liabilities:			
Accounts Payable	47,575	-	47,575
Accrued Liabilities	24,944	-	24,944
Deposits Payable	-	36,614	36,614
Bond Interest Payable	20,800	26,000	46,800
Capital Lease Payable - Due Within One Year	51,916	-	51,916
Notes Payable - Due Within One Year	12,015	-	12,015
General Obligation Bonds - Due Within One Year	-	49,000	49,000
Revenue Bonds Payable - Due Within One Year	112,000	154,284	266,284
Total Current Liabilities	269,250	265,898	535,148
Noncurrent Liabilities:			
Capital Lease Payable - More Than One Year	233,642	-	233,642
Notes Payable - More Than One Year	25,861	-	25,861
General Obligation Bonds - More Than One Year	-	1,014,000	1,014,000
Revenue Bonds Payable - More Than One Year	1,033,000	2,781,091	3,814,091
Compensated Absences	26,026	-	26,026
Total Noncurrent Liabilities	1,318,529	3,795,091	5,113,620
TOTAL LIABILITIES	1,587,779	4,060,989	5,648,768
NET ASSETS			
Investment in Capital Assets, Net of Debt	3,164,239	4,941,764	8,106,003
Restricted For:			
Bond Retirement	93,800	115,200	209,000
Impact Fees	-	4,725	4,725
Cemetery Perpetual Care	44,044	-	44,044
Unrestricted	291,965	338,074	630,039
TOTAL NET ASSETS	3,594,048	5,399,763	8,993,811
TOTAL LIABILITIES AND NET ASSETS	5,181,827	9,460,752	14,642,579

The notes to the financial statements are an integral part of this statement.

SALINA CITY
STATEMENT OF ACTIVITIES
For The Fiscal Year Ended June 30, 2006

Function/Programs Primary Government:	Expenses	Program Revenues		Net (Expense) Revenues and	
		Charges for Services	Operating Grants/Contributions	Governmental Activities	Changes in Net Assets Business-Type Activities Total
Governmental Activities:					
General Government	296,947	128,710	-	(168,237)	(168,237)
Public Safety	564,755	3,795	45,443	(515,517)	(515,517)
Highways and Public Improvements	453,274	-	116,706	126,866	126,866
Park and Recreation	285,253	62,554	-	(222,699)	(222,699)
Economic Development	19,129	38,245	20,000	39,116	39,116
Interest on Long-Term Debt	44,745	-	-	(44,745)	(116,460)
Total Governmental Activities	1,664,103	233,304	182,149	(785,216)	(856,931)
Business-Type Activities:					
Water Fund	294,852	308,033	-	-	13,181
Sewer Fund	192,799	291,517	-	-	98,718
Irrigation Fund	99,970	89,200	-	-	(10,770)
Sanitation Fund	127,306	137,774	-	-	10,468
Total Business-Type Activities	714,927	826,524	-	111,597	111,597
Total Primary Government	2,379,030	1,059,828	182,149	(785,216)	(745,334)
General Revenues:					
Property Taxes				172,344	172,344
Fee-In-Lieu of Property Taxes				57,308	57,308
Sales Taxes				292,223	292,223
Transient Room Taxes				16,056	16,056
Franchise Taxes				6,383	6,383
Highway Taxes				177,878	177,878
Impact Fees				-	18,100
Gain on Sale of Fixed Assets				12,670	12,670
Unrestricted Investment Earnings				22,639	24,944
Total General Revenues and Transfers				757,501	777,906
Change in Net Assets				(27,715)	32,572
Net Assets - Beginning				3,621,763	8,961,239
Net Assets - Ending				3,594,048	8,993,811

The notes to the financial statements are an integral part of this statement.

**SALINA CITY
BALANCE SHEET
GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	125,993	369,844	495,837
Accounts Receivable (Net)	8,666	-	8,666
Due From Other Government Units	24,651	20,000	44,651
Due From Other Funds	446,820	-	446,820
	<u>606,130</u>	<u>389,844</u>	<u>995,974</u>
TOTAL ASSETS			
	<u>606,130</u>	<u>389,844</u>	<u>995,974</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	47,575	-	47,575
Accrued Liabilities	24,944	-	24,944
Due to General Fund	-	446,820	446,820
	<u>72,519</u>	<u>446,820</u>	<u>519,339</u>
Total Liabilities			
	<u>72,519</u>	<u>446,820</u>	<u>519,339</u>
Fund Balances:			
Reserved For:			
Bond Reserve	93,800	-	93,800
Cemetery Perpetual Care	-	44,044	44,044
Unreserved, Reported In:			
General Fund	439,811	-	439,811
Special Revenue Funds	-	(150,473)	(150,473)
Capital Project Fund	-	49,453	49,453
	<u>533,611</u>	<u>(56,976)</u>	<u>476,635</u>
Total Fund Balance			
	<u>533,611</u>	<u>(56,976)</u>	<u>476,635</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>606,130</u>	<u>389,844</u>	<u>995,974</u>

The notes to the financial statements are an integral part of this statement.

SALINA CITY
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS

June 30, 2006

Total Fund Balances - Governmental Fund Types	476,635
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Land	991,770	
Buildings	1,494,136	
Equipment	410,717	
Infrastructure	<u>1,736,050</u>	
 Total		 4,632,673

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Bond Interest Payable	(20,800)	
Capital Lease Payable	(285,558)	
Notes Payable	(37,876)	
Revenue Bonds	(1,145,000)	
Compensated Absences	<u>(26,026)</u>	
 Total		 <u>(1,515,260)</u>

Net Assets of Government Activities	<u><u>3,594,048</u></u>
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SALINA CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	544,314	87,856	632,170
Licenses and Permits	106,495	-	106,495
Intergovernmental Revenue	625,583	20,000	645,583
Charges for Services	30,478	31,488	61,966
Fines and Forfeitures	88,683	-	88,683
Interest	14,955	7,684	22,639
Miscellaneous Revenues	<u>32,423</u>	<u>46,411</u>	<u>78,834</u>
 Total Revenues	 <u>1,442,931</u>	 <u>193,439</u>	 <u>1,636,370</u>
Expenditures:			
Current:			
General Government	275,015	-	275,015
Public Safety	498,652	-	498,652
Highways and Public Improvements	208,125	-	208,125
Parks and Recreation	170,153	81,880	252,033
Economic Development	-	19,129	19,129
Capital Outlay	384,300	-	384,300
Debt Service:			
Principal	90,000	79,846	169,846
Interest	<u>22,345</u>	<u>23,600</u>	<u>45,945</u>
 Total Expenditures	 <u>1,648,590</u>	 <u>204,455</u>	 <u>1,853,045</u>
 Net Change In Fund Balance	 (205,659)	 (11,016)	 (216,675)
 Fund Balance - Beginning	 <u>739,270</u>	 <u>(45,980)</u>	 <u>693,290</u>
 Fund Balance - Ending	 <u><u>533,611</u></u>	 <u><u>(56,996)</u></u>	 <u><u>476,615</u></u>

The notes to the financial statements are an integral part of this statement.

SALINA CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities
are different because:

Net Changes in Fund Balances - Total Governmental Funds	(216,675)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlay	384,300	
Depreciation Expense	<u>(353,900)</u>	
 Total		 30,400

The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Accrued Interest Payable	1,200	
Miscellaneous	18	
Compensated Absences	(12,504)	
Principal Payment on Long-Term Debt	<u>169,846</u>	
 Total		 <u>158,560</u>

Changes In Net Assets of Governmental Activities	<u><u>(27,715)</u></u>
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**SALINA CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2006

	Business-Type Activities Enterprise Fund				Total
	Water	Sewer	Sanitation	Nonmajor Irrigation	
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	338,211	(121,434)	112,464	(1,526)	327,715
Accounts Receivable	28,526	27,434	13,490	8,248	77,698
Total Current Assets	<u>366,737</u>	<u>(94,000)</u>	<u>125,954</u>	<u>6,722</u>	<u>405,413</u>
Noncurrent Assets:					
Investments - Restricted:					
Bond Reserves	-	115,200	-	-	115,200
Capital Assets: (Net of Accum. Depr.)					
Land	7,265	100,835	30,100	-	138,200
Water Shares	21,450	-	-	80,253	101,703
Buildings	2,239	49,920	-	-	52,159
Improvements Other Than Buildings	3,846,347	3,906,206	129,364	727,036	8,608,953
Equipment	-	39,124	-	-	39,124
Total Noncurrent Assets	<u>3,877,301</u>	<u>4,211,285</u>	<u>159,464</u>	<u>807,289</u>	<u>9,055,339</u>
TOTAL ASSETS	<u><u>4,244,038</u></u>	<u><u>4,117,285</u></u>	<u><u>285,418</u></u>	<u><u>814,011</u></u>	<u><u>9,460,752</u></u>
LIABILITIES:					
Current Liabilities:					
Customer Deposits Payable	36,614	-	-	-	36,614
Bond Interest Payable	7,255	18,745	-	-	26,000
Bonds Payable - Current Portion	55,284	148,000	-	-	203,284
Total Current Liabilities	<u>99,153</u>	<u>166,745</u>	<u>-</u>	<u>-</u>	<u>265,898</u>
Noncurrent Liabilities:					
Bonds Payable - Long-Term Portion	1,411,449	2,383,642	-	-	3,795,091
TOTAL LIABILITIES	<u>1,510,602</u>	<u>2,550,387</u>	<u>-</u>	<u>-</u>	<u>4,060,989</u>
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt	2,410,568	1,564,443	159,464	807,289	4,941,764
Restricted for:					
Bond Reserves	-	115,200	-	-	115,200
Unrestricted	322,868	(112,745)	125,954	6,722	342,799
TOTAL NET ASSETS	<u>2,733,436</u>	<u>1,566,898</u>	<u>285,418</u>	<u>814,011</u>	<u>5,399,763</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>4,244,038</u></u>	<u><u>4,117,285</u></u>	<u><u>285,418</u></u>	<u><u>814,011</u></u>	<u><u>9,460,752</u></u>

The notes to the financial statements are an integral part of this statement.

SALINA CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

For The Fiscal Year Ended June 30, 2006

	Business-Type Activities				
	Enterprise Fund				
	Water	Sewer	Sanitation	Nonmajor Irrigation	Total
Operating Revenues:					
Charges for Sales and Services:					
Utility Charges	308,033	291,517	137,774	89,200	826,524
Operating Expenses:					
Costs of Sales and Services	145,905	87,456	122,806	70,996	427,163
Depreciation	148,947	105,343	4,500	28,974	287,764
Total Operating Expenses	294,852	192,799	127,306	99,970	714,927
Operating Income	13,181	98,718	10,468	(10,770)	111,597
Nonoperating Revenues (Expenses):					
Investment Earnings	307	255	-	1,743	2,305
Impact Fees	10,850	5,000	-	2,250	18,100
Interest Expense	(45,984)	(25,731)	-	-	(71,715)
Total Nonoperating Revenues (Expenses)	(34,827)	(20,476)	-	3,993	(51,310)
Change in Net Assets	(21,646)	78,242	10,468	(6,777)	60,287
Total Net Assets - Beginning	2,755,082	1,488,656	274,950	820,788	5,339,476
Total Net Assets - Ending	2,733,436	1,566,898	285,418	814,011	5,399,763

The notes to the financial statements are an integral part of this statement.

**SALINA CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

For The Fiscal Year Ended June 30, 2006

	Business-Type Activities Enterprise Fund				Total
	Water	Sewer	Sanitation	Nonmajor Irrigation	
Cash Flows From Operating Activities:					
Receipts From Customers	305,224	291,391	136,896	88,766	822,277
Payments to Suppliers	(100,299)	(48,033)	(152,033)	(38,555)	(338,920)
Payments to Employees	(49,551)	(40,767)	-	(32,441)	(122,759)
Net Cash Provided by Operating Activities	<u>155,374</u>	<u>202,591</u>	<u>(15,137)</u>	<u>17,770</u>	<u>360,598</u>
Cash Flows From Capital and Related Financing Activities:					
Principal Paid on Capital Debt	(60,895)	(147,000)	-	-	(207,895)
Interest Paid on Capital Debt	(46,532)	(26,786)	-	-	(73,318)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(107,427)</u>	<u>(173,786)</u>	<u>-</u>	<u>-</u>	<u>(281,213)</u>
Cash Flows from Investing Activities:					
Interest Received	307	255	-	1,744	2,306
Impact Fees	10,850	5,000	-	2,250	18,100
Net Cash Provided (Used) by Investing Activities	<u>11,157</u>	<u>5,255</u>	<u>-</u>	<u>3,994</u>	<u>20,406</u>
Net Increase (Decrease) in Cash and Cash Equivalents	59,104	34,060	(15,137)	21,764	99,791
Cash and Cash Equivalents - Beginning	<u>279,107</u>	<u>(40,294)</u>	<u>127,601</u>	<u>(23,290)</u>	<u>343,124</u>
Cash and Cash Equivalents - Ending	<u>338,211</u>	<u>(6,234)</u>	<u>112,464</u>	<u>(1,526)</u>	<u>442,915</u>
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:					
Operating Income	<u>13,181</u>	<u>98,718</u>	<u>10,468</u>	<u>(10,770)</u>	<u>111,597</u>
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:					
Depreciation	148,947	105,343	4,500	28,974	287,764
Increase (Decrease) in Operating Assets					
Accounts Receivable	(2,809)	(126)	(878)	(434)	(4,247)
Accrued Liabilities	(3,945)	(1,344)	(29,227)	-	(34,516)
Total Adjustments	<u>142,193</u>	<u>103,873</u>	<u>(25,605)</u>	<u>28,540</u>	<u>249,001</u>
Net Cash Provided by Operating Activities	<u>155,374</u>	<u>202,591</u>	<u>(15,137)</u>	<u>17,770</u>	<u>360,598</u>

The notes to the financial statements are an integral part of this statement.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Salina City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

The accompanying basic financial statements present the financial position of various fund types and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2006.

The following is a summary of the more significant policies:

A. Reporting Entity

Salina City is a municipal corporation in Sevier County, Utah. It is governed by an elected Mayor and a five member council. As required by generally accepted accounting principles, these financial statements are of the primary government, Salina City, the reporting entity. The City has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Salina City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Government also reports the following Other Governmental Funds:

Redevelopment Agency, Building Authority, Capital Projects and Cemetery Perpetual Care.

The Government reports the following Proprietary Funds:

The Utility Fund accounts for the activities of the water, sewer, sanitation and irrigation operation. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, sanitation and irrigation are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Buildings	40 Years
Improvements Other Than Buildings	20 - 50 Years
Equipment	5 - 10 Years

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

E. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Property Taxes

Property taxes are assessed and collected for the City by Sevier County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting:

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City council on or before June 22 for the following Fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the Town's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 18% of the next year's budgeted revenues must be appropriated within the following two years.

Once adopted, the budget may be amended by the City council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents".

Deposits:

At year-end the carrying amounts of bank deposits were \$258,841 and bank balances were \$337,814. Of the bank balance, \$200,000 was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council. Cash on hand was \$100

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and investments as of June 30, 2006, consist of the following:

	<u>Fair Value</u>
Cash on Hand	100
Demand Deposits	258,841
Investments - PTIF	593,245
Zions Escrow Accounts	<u>86,566</u>
Total Cash and Investments	<u><u>938,752</u></u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Governmental Activities - Unrestricted	402,037
Governmental Activities - Restricted	93,800
Business-Type Activities - Unrestricted	327,715
Business-Type Activities - Restricted	<u>115,200</u>
Total Cash and Cash Equivalents	<u><u>938,752</u></u>

The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that City funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits and investments for local government are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk:

Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$137,814 of the local government's bank balances of \$337,814 were uninsured and uncollateralized.

Credit Risk:

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

For the year ended June 30, 2006, the local governments has investments of \$593,245 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investments mainly in the PTIF and by adhering to the Money Management Act. The act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of Credit Risk:

Concentration of credit risk the risk of loss attributed to the magnitude of a government's investments in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

NOTE 3 - BOND RESERVES

The ordinance authorizing the 2000 Sewer Revenue Bonds requires that the City establish a sinking fund with deposits of \$2,100 a month for six years to a maximum of \$151,500. The balance at June 30, 2006, was \$100,800.

The 2002 Sewer Revenue Bonds require the City to establish a reserve fund with deposits of \$300 per month over six years to a maximum of \$22,000. The balance at year end was \$14,400. The City was in compliance with this requirement.

NOTE 4 - IMPACT FEES

Effective July 1, 1997, the City adopted an impact fee ordinance for water. These fees are recorded as other revenues in the Water Fund. The fee schedule is as follows:

New connections that require a 3/4" service line and meter will pay a one time impact fee of \$1,550.

New connections that require a meter and service line larger than 3/4" and smaller than 2" will pay a one time impact fee of \$3,100.

New connections that require a 2" or larger service line and meter will pay a one time impact fee of \$6,200.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 4 - IMPACT FEES (CONTINUED)

The City is required to place these impact fees into a separate interest bearing account and may spend these funds only on capital improvements, retiring debt for the system, or other expenditures as allowed by law. These funds must be expended within six years from receipt or returned with interest to the payer.

Effective May 4, 1999, the City adopted an impact fee ordinance for pressurized irrigation water. These fees are recorded as other revenues in the irrigation fund. The fee schedule is as follows:

1/4 Acre Lot	750
1/3 Acre Lot	1,500
1/2 Acre Lot	1,500
1 Acre Lot	3,000

The new developments may furnish the City with 1/4 primary water share per 1/2 acre lot size from the Salina Creek Irrigation Company in lieu of paying the impact fee.

Effective April 4, 2000, the City adopted an impact fee ordinance for sewer connections. These fees are recorded as other revenues in the sewer fund. The fee schedule calls for a fee of \$1,000 per equivalent residential unit.

The following is an accounting of impact fees collected, interest earned, and funds expended if any:

	<u>Impact Fees</u>	<u>Interest Earned</u>	<u>Expenditures</u>	<u>Account Balance</u>
1997-2006	<u>173,200</u>	<u>10,458</u>	<u>(178,933)</u>	<u>4,725</u>

NOTE 5 - WATER SHARES

The Utility Fund has water shares which are shown on the balance sheet at a cost of \$101,703. The current value of the water shares is in excess of the cost.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	595,900	-	-	595,900
Land Related to Infrastructure	45,870	350,000	-	395,870
Total Capital Assets Not Being Depreciated	<u>641,770</u>	<u>350,000</u>	<u>-</u>	<u>991,770</u>
Capital Assets Being Depreciated:				
Buildings	3,855,775	-	-	3,855,775
Equipment	63,590	14,000	-	77,590
Vehicles	863,467	20,300	-	883,767
Infrastructure	4,693,000	-	-	4,693,000
Total Capital Assets Being Depreciated	<u>9,475,832</u>	<u>34,300</u>	<u>-</u>	<u>9,510,132</u>
Less Accumulated Depreciation For:				
Buildings	2,310,352	51,286	-	2,361,638
Equipment	25,306	7,770	-	33,076
Vehicles	457,370	60,194	-	517,564
Infrastructure	2,722,300	234,650	-	2,956,950
Total Accumulated Depreciation	<u>5,515,328</u>	<u>353,900</u>	<u>-</u>	<u>5,869,228</u>
Total Capital Assets Being Depreciated (Net)	<u>3,960,504</u>	<u>(319,600)</u>	<u>-</u>	<u>3,640,904</u>
Governmental Activities Capital Assets, Net	<u>4,602,274</u>	<u>30,400</u>	<u>-</u>	<u>4,632,674</u>

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 6 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	138,200	-	-	138,200
Water Shares	<u>101,703</u>	<u>-</u>	<u>-</u>	<u>101,703</u>
 Total Capital Assets Not Being Depreciated	 <u>239,903</u>	 <u>-</u>	 <u>-</u>	 <u>239,903</u>
 Capital Assets Being Depreciated:				
Buildings	84,860	-	-	84,860
Improvements - Utility Systems	9,156,382	-	-	9,156,382
Equipment	484,421	-	-	484,421
Construction In Progress	<u>3,043,697</u>	<u>-</u>	<u>-</u>	<u>3,043,697</u>
 Total Capital Assets Being Depreciated	 <u>12,769,360</u>	 <u>-</u>	 <u>-</u>	 <u>12,769,360</u>
 Less Accumulated Depreciation For:				
Buildings	30,879	1,822	-	32,701
Improvements - Utility Systems	3,325,301	256,825	-	3,582,126
Equipment	<u>425,183</u>	<u>29,116</u>	<u>-</u>	<u>454,299</u>
 Total Accumulated Depreciation	 <u>3,781,363</u>	 <u>287,763</u>	 <u>-</u>	 <u>4,069,126</u>
 Total Capital Assets Being Depreciated (Net)	 <u>8,987,997</u>	 <u>(287,763)</u>	 <u>-</u>	 <u>8,700,234</u>
 Business Type Activities Capital Assets, Net	 <u>9,227,900</u>	 <u>(287,763)</u>	 <u>-</u>	 <u>8,940,137</u>
 Total Capital Assets	 <u><u>13,830,174</u></u>	 <u><u>(257,363)</u></u>	 <u><u>-</u></u>	 <u><u>13,572,811</u></u>

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Primary Government as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
General Government	9,428	-	9,428
Public Safety	66,103	-	66,103
Public Health	-	287,763	287,763
Highways and Public Improvements	245,149	-	245,149
Parks and Recreation	33,220	-	33,220
	<u>353,900</u>	<u>287,763</u>	<u>641,663</u>
Total Depreciation Expense			

NOTE 7 - LONG-TERM DEBT PAYABLE

Utility Bonds:

Water Revenue Bonds Payable:

The City obtained a \$450,000 loan from the U. S. Rural Development Agency, bearing an interest rate of 4.5%. The monthly payments will be \$2,043 for 40 years. The bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	6,284	18,232	24,516
2007-2008	6,567	17,949	24,516
2008-2009	6,863	17,653	24,516
2009-2010	7,172	17,344	24,516
2010-2011	7,494	17,022	24,516
2012-2016	42,844	79,736	122,580
2017-2021	53,392	69,188	122,580
2022-2026	66,536	55,945	122,481
2027-2031	82,915	39,665	122,580
2032-2036	103,329	19,251	122,580
2037-2041	20,337	979	21,316
	<u>403,733</u>	<u>352,964</u>	<u>756,697</u>
Total			

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)

Utility Bonds (Continued):

Water Revenue Bonds Payable (Continued):

1998, \$490,000 General Obligation Water Revenue Bonds, Series 1998C - held by the Community Impact Board, bearing interest at the rate of 3%. The bonds are payable as follows

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	17,000	11,130	28,130
2007-2008	17,000	10,620	27,620
2008-2009	18,000	10,110	28,110
2009-2010	19,000	9,570	28,570
2010-2011	19,000	9,000	28,000
2012-2016	105,000	36,030	141,030
2017-2021	125,000	21,330	146,330
2022-2026	51,000	840	51,840
Total	<u>371,000</u>	<u>108,630</u>	<u>479,630</u>

1998, \$510,000 General Obligation Water Revenue Bonds, Series 1998B - held by the Community Impact Board, bearing interest at the rate of 1.85%. The bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	18,000	11,580	29,580
2007-2008	18,000	11,040	29,040
2008-2009	19,000	10,500	29,500
2009-2010	19,000	9,930	28,930
2010-2011	20,000	9,360	29,360
2012-2016	109,000	37,410	146,410
2017-2021	113,000	14,533	127,533
2022-2026	70,000	1,092	71,092
Total	<u>386,000</u>	<u>105,445</u>	<u>491,445</u>

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)

Utility Bonds (Continued):

Water Revenue Bonds Payable (Continued):

1998, \$400,000 General Obligation Water Revenue Bonds, Series 1998A - held by the Utah Drinking Water Board, bearing interest at the rate of 1.85%. The bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	14,000	5,661	19,661
2007-2008	15,000	5,402	20,402
2008-2009	15,000	5,125	20,125
2009-2010	15,000	4,847	19,847
2010-2011	16,000	4,570	20,570
2012-2016	82,000	18,391	100,391
2017-2021	91,000	10,509	101,509
2022-2026	58,000	2,165	60,165
	<u>306,000</u>	<u>56,670</u>	<u>362,670</u>
Total	<u>306,000</u>	<u>56,670</u>	<u>362,670</u>
Total Water Bonds Payable	<u>1,466,733</u>	<u>623,709</u>	<u>2,090,442</u>

Sewer Revenue Bonds Payable:

2000, \$2,725,000 Sewer Revenue Bonds - held by the State Revolving Fund, bearing interest at the rate of 1%. The bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	129,000	22,056	151,056
2007-2008	130,000	20,766	150,766
2008-2009	131,000	19,466	150,466
2009-2010	133,000	18,156	151,156
2010-2011	134,000	16,826	150,826
2012-2016	690,000	63,770	753,770
2017-2021	726,000	28,560	754,560
2022-2026	132,642	1,326	133,968
	<u>2,205,642</u>	<u>190,926</u>	<u>2,396,568</u>
Total	<u>2,205,642</u>	<u>190,926</u>	<u>2,396,568</u>

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)

Utility Bonds (Continued):

Sewer Revenue Bonds Payable (Continued):

2002, \$400,000 Sewer Revenue Bonds - held by the State Revolving Fund, bearing interest at the rate of 1%. The bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	19,000	3,260	22,260
2007-2008	19,000	3,070	22,070
2008-2009	19,000	2,880	21,880
2009-2010	19,000	2,690	21,690
2010-2011	20,000	2,500	22,500
2012-2016	101,000	10,500	111,500
2017-2021	107,000	5,410	112,410
2022-2026	22,000	660	22,660
	<u>326,000</u>	<u>30,970</u>	<u>356,970</u>
Total	<u>326,000</u>	<u>30,970</u>	<u>356,970</u>
 Total Sewer Bonds Payable	 <u>2,531,642</u>	 <u>221,896</u>	 <u>2,753,538</u>
 Total Utility Bonds Payable	 <u>3,998,375</u>	 <u>845,605</u>	 <u>4,843,980</u>

The following is a summary of Utility Bond charges to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	203,284	71,919	275,203
2007-2008	205,567	68,847	274,414
2008-2009	208,863	65,734	274,597
2009-2010	212,172	62,537	274,709
2010-2011	216,494	59,278	275,772
2012-2016	1,129,844	245,837	1,375,681
2017-2021	1,215,392	149,530	1,364,922
2022-2026	400,178	62,028	462,206
2027-2031	82,915	39,665	122,580
2032-2036	103,329	19,251	122,580
2037-2041	20,337	979	21,316
	<u>3,998,375</u>	<u>845,605</u>	<u>4,843,980</u>
Total Utility Bonds	<u>3,998,375</u>	<u>845,605</u>	<u>4,843,980</u>

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)

Governmental Long-Term Debt:

Municipal Building Authority Revenue Bond Payable:

On March 8, 1992, the Salina City council created the Municipal Building Authority of Salina City under Section 11-29-3 of the Utah Code Annotated 1953. The purpose of the Building Authority was to finance construction of an Equestrian/Civic Center.

The Building Authority has executed a lease with Salina City for the lease of the facility. The proceeds of the lease would be used to help retire bonded indebtedness and to cover operation and maintenance costs. However, in lieu of a lease payment the City is giving the Building Authority the retail receipts fees that are collected by the City. Citizens of the community are the trustees of the Building Authority.

On June 9, 1993, the Building Authority issued and sold lease-revenue bonds to the Community Impact Board in the amount of \$500,000, bearing interest at the rate of 3%, to finance these improvements.

The bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	19,000	9,750	28,750
2007-2008	20,000	9,180	29,180
2008-2009	20,000	8,580	28,580
2009-2010	21,000	7,980	28,980
2010-2011	21,000	7,350	28,350
2012-2016	117,000	26,790	143,790
2017-2021	107,000	8,130	115,130
	<u>325,000</u>	<u>77,760</u>	<u>402,760</u>
Total			

Road Excise Tax Revenue Bond:

On September 3, 2003, the City issued bonds to finance the cost of constructing improvements to certain Class C roads within the boundaries of the City. The bonds carry an interest rate of 2.05% to 4.4% and require yearly payments which begin on September 15, 2004. The City has pledged their Class C Road allotments from the State of Utah until the bonds are paid in full.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)
Governmental Long-Term Debt (Continued):

The bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	75,000	12,586	87,586
2007-2008	78,000	11,480	89,480
2008-2009	81,000	9,386	90,386
2009-2010	84,000	7,052	91,052
2010-2011	88,000	3,872	91,872
Total	<u>406,000</u>	<u>44,376</u>	<u>450,376</u>

CIB Firehouse Bond:

On August 1, 2002, the City issued bond to finance the cost of constructing a City firehouse. The bonds carry an interest rate of 2.5% and require yearly payments that begin on September 1, 2004.

The bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	18,000	10,350	28,350
2007-2008	19,000	9,900	28,900
2008-2009	20,000	9,435	29,435
2009-2010	20,000	8,925	28,925
2010-2011	21,000	8,425	29,425
2012-2016	109,000	34,175	143,175
2017-2021	124,000	19,875	143,875
2022-2026	83,000	4,175	87,175
Total	<u>414,000</u>	<u>105,260</u>	<u>519,260</u>
Total Governmental Bonds	<u><u>1,145,000</u></u>	<u><u>227,396</u></u>	<u><u>1,372,396</u></u>

SALINA CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)

The following is a schedule of changes in Bonds Payable:

Bond Issue	Date of Issue	Interest Rate	Total Authorized	Outstanding June 30, 2005	Current Year Changes		Outstanding June 30, 2006
					Issued	Matured	
Utility Bonds:							
Water Revenue Bonds	1980	5%	76,000	5,985	-	5,985	-
Water Revenue Bonds	1998	4.50%	450,000	411,643	-	7,910	403,733
Water Revenue Bonds	1998	3%	490,000	387,000	-	16,000	371,000
Water Revenue Bonds	1998	1.85%	510,000	403,000	-	17,000	386,000
Water Revenue Bonds	1998	1.85%	400,000	320,000	-	14,000	306,000
Sewer Revenue Bonds	2000	1%	2,725,000	2,333,642	-	128,000	2,205,642
Sewer Revenue Bonds	2002	1%	400,000	345,000	-	19,000	326,000
Total Utility Funds			5,051,000	4,206,270	-	207,895	3,998,375
General Long-Term Debt:							
Building Authority Bond	1993	3%	500,000	343,000	-	18,000	325,000
Class C Road Excise Bond	2004	2.05-4.4%	550,000	479,000	-	73,000	406,000
CIB Firehouse Bond	2004	2.50%	447,961	431,000	-	17,000	414,000
Total General Long-Term Debt			1,497,961	1,253,000	-	108,000	1,145,000
Total Bonded Indebtedness			6,548,961	5,459,270	-	315,895	5,143,375

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)
Governmental Long-Term Debt (Continued):

Notes Payable:

During the 1998-1999 fiscal year the City acquired approximately 306 acres of land for \$122,400. The City paid \$15,000 down and financed \$107,400 over 10 years at 5% interest. The yearly payments are \$13,908.79.

The following is a summary of debt service charges to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	12,015	1,894	13,909
2007-2008	12,616	1,293	13,909
2008-2009	13,245	664	13,909
Total	<u>37,876</u>	<u>3,851</u>	<u>41,727</u>

Industrial Park:

During prior fiscal years the City began infrastructure development for phase one of the industrial park commercial center project. This phase consists of water, sewer and street development. Funding for phase one of the project consisted of the following:

<u>Description</u>	<u>Amount</u>
EDA Grant	735,000
City's Contribution	<u>315,000</u>
Total	<u>1,050,000</u>

To finance the City's portion of the cost the City entered into a lease-purchase agreement with Zions First National Bank. The bank agreed to loan the City \$400,000 as needed. At year end the City had borrowed \$274,026. The terms of the lease require yearly payments allocated over ten years. The interest rate is variable at 75% of prime.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)

Governmental Long-Term Debt (Continued):

The debt service charges to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	33,623	5,356	38,979
2007-2008	34,631	4,348	38,979
2008-2009	35,670	3,309	38,979
2009-2010	36,740	2,239	38,979
2010-2011	28,553	1,137	29,690
	<u>169,217</u>	<u>16,389</u>	<u>185,606</u>
Total			

Zions Bank Lease Obligation:

During the 2003/2004 year the City obtained financing from Zions Bank in the amount of \$187,000 for the purpose of acquiring additional property in the industrial park. The terms of the lease require yearly payments of \$21,843.22 including interest at 75% of prime rate. The balance of loan at year end amounted to \$116,341.

The debt service charges to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	18,293	4,083	22,376
2007-2008	18,842	3,550	22,392
2008-2009	19,407	3,001	22,408
2009-2010	19,989	2,436	22,425
2010-2011	20,589	1,853	22,442
2012-2016	19,221	1,891	21,112
	<u>116,341</u>	<u>16,814</u>	<u>133,155</u>
Total			

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - LONG-TERM DEBT PAYABLE (CONTINUED)
Governmental Long-Term Debt (Continued):

The following is a schedule of changes in Governmental Long-Term Debt:

	Balance June 30, 2005	Issued	Matured	Balance June 30, 2006
Building Authority Bond	343,000	-	18,000	325,000
Class C Excise Tax Bond	479,000	-	73,000	406,000
CIB Firehouse Bond	431,000	-	17,000	414,000
Note Payable - Torgerson Prop.	49,319	-	11,443	37,876
Lease Obligation - Zions	201,860	-	32,643	169,217
Lease Obligation - Zions	134,101	-	17,760	116,341
	<u>1,638,280</u>	<u>-</u>	<u>169,846</u>	<u>1,468,434</u>

Compensated Absences:

Compensated absences of Salina City in the general long-term debt account group represent accrued vacation at June 30, 2006, in the amount of \$26,026. The following is a statement of changes in compensated absences:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Compensated Absences	<u>13,522</u>	<u>12,504</u>	<u>-</u>	<u>26,026</u>

NOTE 8 - REDEVELOPMENT AGENCY

Salina City organized a Redevelopment Agency (RDA) during 2001. The mayor and city council of Salina City are the governing board of the Redevelopment agency. The Redevelopment Agency will be considered a blended component unit of Salina City for financial reporting purposes. The area of the District is approximately 640 acres in the proposed industrial park south of Salina. Initially the agency will identify 100 acres as a project area.

The agency is in the process of providing infrastructure, namely; water, sewer, utilities and streets.

The agency is borrowing money from the City's general fund to finance the construction of the infrastructure in the industrial park. The agency will then use the tax increment monies to repay the general fund.

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 8 - REDEVELOPMENT AGENCY (CONTINUED)

During the current fiscal year there were no tax increment monies collected. The only outstanding debt is \$323,434 plus the amount owed to the City of \$446,820.

Expenditures for the project to date are as follows:

	<u>2002-2004</u>	<u>2005</u>	<u>2006</u>	<u>Totals</u>
Site Improvements	200,575	2,112	17,167	219,854
Installation of Utilities and Improvements	784,283	-	-	784,283
Administrative Costs	55,743	20,318	18,939	95,000
Debt Service - Principal	194,097	41,518	44,086	279,701
Debt Service - Interest	<u>27,895</u>	<u>11,573</u>	<u>10,632</u>	<u>50,100</u>
Total	<u>1,262,593</u>	<u>75,521</u>	<u>90,824</u>	<u>1,428,938</u>

NOTE 9 - CLASS "C" ROAD

The following schedule is a statement of revenues, expenditures and changes in Class "C" Road:

Balance - Beginning of Year	-
Receipts:	
Class "C" Road Allotment	116,706
Expenditures	<u>(116,706)</u>
Balance - End of Year	<u>-</u>

NOTE 10 - CEMETERY PERPETUAL CARE FUND

The following schedule is a statement of revenues, expenses and changes in fund balances:

Balance - Beginning of Year	44,044
Operating Revenues:	
Interest	5,641
Expenditures:	
Transfer Interest to General Fund	<u>(5,641)</u>
Balance - End of Year	<u>44,044</u>

SALINA CITY
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 11 - PENSION PLAN

Local Governmental - Cost Sharing:

Plan Description:

Salina City contributes to the Local Governmental Noncontributory Retirement System and Public Safety System Other Division A Noncontributory for employers with Social Security coverage both of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement System (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Act in Chapter 49 provides for the administration of the Utah Retirement Systems and plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that included financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

Salina City is required to contribute a percent of covered salary to the respective systems; 11.09% to the Noncontributory and 19.34% to the Public Safety Other Division A Noncontributory Systems. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Salina City contributions to the various systems for the years ending June 30, 2006, 2005 and 2004 respectively were; for the Noncontributory System, \$25,368.26, \$24,503.77 and \$20,775.25; and for the Public Safety Other Division A Noncontributory System, \$34,364.98, \$37,236.66 and \$31,662.49 respectively. The contributions were equal to the required contributions for each year.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The City is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

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is used to assist in formatting, for easier reading)

**REQUIRED SUPPLEMENTARY
INFORMATION
"UNAUDITED"**

**SALINA CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	142,500	142,500	153,853	11,353
Prior Years Taxes	10,000	10,000	18,491	8,491
Fee-In-Lieu	60,000	60,000	57,308	(2,692)
Sales and Use Taxes	340,000	350,000	292,223	(57,777)
Franchise Taxes	7,500	7,500	6,383	(1,117)
Transient Room Tax	16,000	16,000	16,056	56
Total Taxes	576,000	586,000	544,314	(41,686)
Licenses and Permits:				
Business Licenses	13,000	13,000	13,471	471
Highway Tax	85,000	90,600	90,022	(578)
Non-Business Licenses and Permits	5,000	5,000	3,002	(1,998)
Total Licenses and Permits	103,000	108,600	106,495	(2,105)
Intergovernmental Revenue:				
State Grants	16,000	16,000	6,720	(9,280)
Federal Grants	30,161	454,161	463,434	9,273
State Liquor Fund Allotment	5,500	5,500	4,244	(1,256)
Class C Road	125,000	125,000	116,706	(8,294)
Local Agencies	39,100	2,600	1,600	(1,000)
County Fire Contract	-	36,500	32,879	(3,621)
Total Intergovernmental Revenue	215,761	639,761	625,583	(14,178)
Parks and Recreation:				
Swimming Pool Fees	11,000	17,000	17,975	975
Special Police Services	-	3,565	3,795	230
Cemetery	3,000	5,200	4,925	(275)
Other	4,500	4,500	3,783	(717)
Total Charges for Services	18,500	30,265	30,478	213

Continued

**SALINA CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues (Continued):				
Fines and Forfeitures	110,000	90,000	88,683	(1,317)
Miscellaneous Revenue:				
Interest	7,000	8,150	14,955	6,805
Rents	10,000	11,300	9,250	(2,050)
Sale of Fixed Assets	1,000	12,795	12,670	(125)
Other	1,300	12,855	10,503	(2,352)
Total Miscellaneous Revenue	19,300	45,100	47,378	2,278
Contributions and Transfers:				
Use of Surplus	416,221	254,509	-	(254,509)
Total Revenues	1,458,782	1,754,235	1,442,931	(311,304)
Expenditures:				
General Government:				
Administration	184,605	215,155	228,823	(13,668)
Judicial:				
Court	56,210	51,010	46,193	4,817
Public Safety:				
Law Enforcement	474,103	434,856	426,074	8,782
Fire Department	106,800	106,800	92,878	13,922
Total Public Safety	580,903	541,656	518,952	22,704
Streets and Public Improvements:				
County Roads	303,657	555,257	558,125	(2,868)

Continued

**SALINA CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued):				
Parks, Recreation and Public Property:				
Airport	1,500	1,650	1,575	75
Swimming Pool	41,890	43,890	44,644	(754)
Recreation	24,100	28,700	24,964	3,736
Parks	26,900	26,900	18,246	8,654
Libraries	63,917	63,917	64,090	(173)
Cemetery	54,100	34,100	30,633	3,467
Total Parks, Recreation and Public Property	<u>212,407</u>	<u>199,157</u>	<u>184,152</u>	<u>15,005</u>
Debt Service:				
Principal Payments	-	71,000	90,000	(19,000)
Interest and Fiscal Charges	<u>17,000</u>	<u>17,000</u>	<u>22,345</u>	<u>(5,345)</u>
Total Parks, Recreation and	<u>17,000</u>	<u>88,000</u>	<u>112,345</u>	<u>(24,345)</u>
Nondepartmental:				
Transfers to Other Funds	<u>104,000</u>	<u>104,000</u>	<u>-</u>	<u>104,000</u>
Total Expenditures	<u>1,458,782</u>	<u>1,754,235</u>	<u>1,648,590</u>	<u>105,645</u>
Excess Revenues Over Expenditures	-	-	(205,659)	(205,659)
Fund Balance - Beginning of Year	<u>739,270</u>	<u>739,270</u>	<u>739,270</u>	<u>-</u>
Fund Balance - End of Year	<u>739,270</u>	<u>739,270</u>	<u>533,611</u>	<u>(205,659)</u>

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

**SALINA CITY
NONMAJOR GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2006

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Redevelopment Agency:

The Redevelopment Agency accounts for monies expended for economic development within a certain area within the City.

Building Authority Fund:

This fund is used to construct public facilities in the City and to pay the indebtedness related to the cost of those facilities.

CAPITAL PROJECTS FUND

Capital Projects Fund:

This fund is used to account for the acquisition of capital assets or construction of major capital improvements.

PERMANENT FUND

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care Fund:

This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

**SALINA CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006

	Redevelopment Agency	Building Authority	Capital Projects	Permanent Fund Perpetual Care	Nonmajor Governmental Funds
ASSETS					
Investments - Unrestricted	-	276,347	49,453	44,044	369,844
Due From Other Governmental Units	-	20,000	-	-	20,000
TOTAL ASSETS	<u>-</u>	<u>296,347</u>	<u>49,453</u>	<u>44,044</u>	<u>389,844</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to General Fund	<u>446,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>446,820</u>
Total Liabilities	<u>446,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>446,820</u>
Fund Balances:					
Reserved For:					
Cemetery Perpetual Care	-	-	-	44,044	44,044
Unreserved, Reported in:					
Special Revenue Funds	(446,820)	296,347	-	-	(150,473)
Capital Improvement Fund	<u>-</u>	<u>-</u>	<u>49,453</u>	<u>-</u>	<u>49,453</u>
Total Fund Balances	<u>(446,820)</u>	<u>296,347</u>	<u>49,453</u>	<u>44,044</u>	<u>(56,976)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>-</u>	<u>296,347</u>	<u>49,453</u>	<u>44,044</u>	<u>389,844</u>

SALINA CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For The Year Ended June 30, 2006

	Redevelopment Agency	Building Authority	Capital Projects	Permanent Fund Perpetual Care	Nonmajor Governmental Funds
Revenues:					
Taxes	-	87,856	-	-	87,856
Intergovernmental	-	20,000	-	-	20,000
Charges for Services	-	31,488	-	-	31,488
Interest	1,434	6,250	-	-	7,684
Miscellaneous	<u>38,245</u>	<u>8,166</u>	<u>-</u>	<u>-</u>	<u>46,411</u>
Total Revenues	<u>39,679</u>	<u>153,760</u>	<u>-</u>	<u>-</u>	<u>193,439</u>
Expenditures:					
Current:					
Economic Development	19,129	-	-	-	19,129
Parks and Recreation	-	81,880	-	-	81,880
Debt Service:					
Principal	61,846	18,000	-	-	79,846
Interest	<u>13,000</u>	<u>10,600</u>	<u>-</u>	<u>-</u>	<u>23,600</u>
Total Expenditures	<u>93,975</u>	<u>110,480</u>	<u>-</u>	<u>-</u>	<u>204,455</u>
Net Change in Fund Balance	(54,296)	43,280	-	-	(11,016)
Fund Balances - Beginning	<u>(392,524)</u>	<u>253,047</u>	<u>49,453</u>	<u>44,044</u>	<u>(45,980)</u>
Fund Balances - Ending	<u><u>(446,820)</u></u>	<u><u>296,327</u></u>	<u><u>49,453</u></u>	<u><u>44,044</u></u>	<u><u>(56,996)</u></u>

COMPLIANCE SECTION

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
Salina City
Salina, Utah 84654

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Salina City as and for the year ended June 30, 2006, which collectively comprise Salina City's basic financial statements and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Salina City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

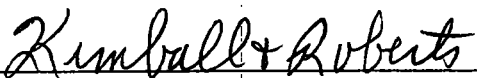
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salina City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Salina City in a separate letter dated October 18, 2006.

Honorable Mayor and City Council
Salina City
Page -2-

This report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

October 18, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
Salina City
Salina, Utah 84654

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Salina City, for the year ended June 30, 2006, and have issued our report thereon dated October 18, 2006. As part of our audit, we have audited Salina City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the fiscal year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

Class "C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants, which are not required to be audited for specific compliance requirements, (However, these programs were subject to testwork as part of the audit of Salina City's financial statements).

Library Grants (Department of Community and Economic Development)
Police Grant (Department of Public Safety)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

The management of Salina City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Honorable Mayor and City Council
Salina City
Page -2-

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Salina City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the fiscal year ended June 30, 2006.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

October 18, 2006
Richfield, Utah

SALINA CITY
MANAGEMENT LETTER
JUNE 30, 2006

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

Honorable Mayor and City Council
Salina City
Salina, Utah 84654

During our audit of the funds of Salina City for the fiscal year ended June 30, 2006, we noted certain areas needing corrective action in order for the City to be in compliance with state laws and regulations. We also noted a circumstance that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration.

COMPLIANCE:

Fund Balance

Utah Code 10-6-116(2) states that the maximum a city may accumulate in the fund balance cannot exceed 18% of the total estimated revenue of the General Fund.

Finding:

The general fund has a fund balance that exceeds the allowable 18% of total estimated revenues of the General Fund. Total estimated revenue for the General Fund is \$1,648,638. Eighteen percent of the estimated revenue is \$296,755. The unreserved fund balance in the General Fund at year-end was \$439,811.

Recommendation:

We recommend that the fund balance in the General Fund be brought into compliance with state law.

Response:

We have reviewed the above finding with management and management agrees with the recommendation.

Budgetary Compliance

According to State law officers and employees of an entity shall not incur expenditures in excess of the total appropriation for any department or fund.

Finding:

We noted that the expenditures in general government, streets, swimming pool and the library exceeded their budgets.

Honorable Mayor and City Council
Salina City
Page -2-

Recommendation:

We recommend that the City restrict expenditures to the adopted budget amounts. If the total expenditures do not exceed the total budget the Council may, by resolution, adjust the budget in the departments that have exceeded the budget and reduce the budget in departments that have not exceeded the departments budget.

Response:

We have reviewed the above finding with management and management agrees with the recommendation.

INTERNAL CONTROLS:

Cash Reconciliations

Finding:

Our audit of cash revealed that the Treasurer and Recorder had not reconciled the cash accounts on a monthly basis.

Recommendation:

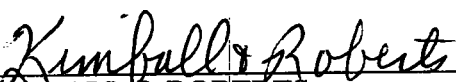
We recommend that the Treasurer and Recorder reconcile the cash accounts monthly so the bank accounts balance with the general ledger accounts.

Response:

We have reviewed the above finding with management and management agrees with the recommendation.

We would like to take this opportunity to thank Salina City's personnel for the cooperation and assistance given to us during the course of our examination.

Respectfully submitted,


KIMBALL & ROBERTS
Certified Public Accountants

October 18, 2006
Richfield, Utah